

- (3) All other compensation consists of the Company's 401(k) contribution, life insurance and long-term disability coverage. The Company's 401(k) contributions for David D. Smith, Frederick G. Smith, J. Duncan Smith and Robert E. Smith were \$1,405, \$9,497, \$1,113 and \$1,026, respectively. Additional life insurance was \$456, \$456, \$456 and \$456, respectively, and long-term disability coverage was \$994, \$620, \$666 and \$620, respectively.

The Company currently pays its independent director \$100 for each meeting of the Board of Directors attended and reimburses him for any expenses incurred in connection with his attendance at such meetings.

### **Employment Agreement**

No officer has a written employment agreement with the Company.

### **Executive Bonus Plan**

Key management employees are eligible to participate in the Company's Executive Bonus Plan (the "Bonus Plan"). The Bonus Plan is designed to provide incentives to executive officers and other key employees to achieve certain operating objectives of the Company, and is administered by the Board of Directors. Participants are selected based upon their ability to affect profitability. Annual cash awards are based primarily on the attainment of certain operating objectives. The Bonus Plan is intended to reward specific operating accomplishments and provide competitive levels of compensation for the attainment of those financial objectives. Under the Bonus Plan, target awards are established for executive officers as a percentage of their base salary range. The targeted awards are subject to decrease or increase based on the Company's actual performance and at the discretion of the Board of Directors. The Board of Directors may also grant discretionary awards to certain key employees.

The bonuses in an aggregate amount of \$10.0 million paid to the executive officers in the third quarter of 1993 are special bonuses being awarded to such executive officers to reward them for their service with the Company during the period from 1987 to 1993, and have not been made pursuant to the Bonus Plan.

### **Compensation Committee Interlocks and Insider Participation**

All of the executive officers of the Company serve as directors of corporations that have a director or executive officer who is also a director of the Company. During 1993, each of the executive officers of the Company participated, in his capacity as a director, in deliberations of the Company's Board of Directors concerning executive officer compensation. Each of the executive officers has engaged in transactions with the Company. See "Certain Transactions."

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of the capital stock of the Company as of the date hereof:

<u>Name and Address(1)(2)</u>	<u>Class</u>	<u>Number of Shares</u>	<u>Percent</u>
David D. Smith..... 2000 West 41st Street Baltimore, Maryland 21211	Common Stock	172,995	25%
Frederick G. Smith..... 2000 West 41st Street Baltimore, Maryland 21211	Common Stock	172,995	25%
J. Duncan Smith..... 2000 West 41st Street Baltimore, Maryland 21211	Common Stock	172,995	25%
Robert E. Smith ..... 2000 West 41st Street Baltimore, Maryland 21211	Common Stock	172,995	25%
All directors and officers as a group (6 persons) .....	Common Stock	691,980	100%

- (1) The persons named in the table have sole voting and investment power with respect to the shares shown as beneficially owned by them.
- (2) All of the shares shown as beneficially owned by the persons named in the table have been pledged pursuant to the Company's bank credit agreement.

## ITEM 13. CERTAIN TRANSACTIONS

In each of the Company's transactions with a related party to date, the Company believes that it has conducted such transaction on terms that are comparable to those prevailing in similar transactions with or involving unaffiliated parties, utilizing, whenever practicable, independent appraisals, surveys of comparable transactions and separate legal counsel for each party.

### Four Jacks Broadcasting, Inc.

Four Jacks, a company wholly owned by the Current Stockholders, has filed a competing application with the FCC for the broadcast license for VHF Channel 2 in Baltimore, Maryland. Because of the FCC's multiple ownership rules, the principals of Four Jacks have committed themselves in their application for Channel 2 to divest the Company's interest in the broadcast license for WBFF in Baltimore if Channel 2 is awarded to them and before assuming operational control of Channel 2.

## **Sale of WPTT**

In August 1991, the Company sold the FCC license and certain other assets of WPTT in Pittsburgh to WPTT, Inc. for a sale price of \$7.0 million. In connection with the acquisition of WPGH, the Company engaged an independent appraiser to appraise the FCC license for WPGH. While no similar appraisal was performed on the WPTT license, the Company utilized the information and conclusions contained in the WPGH appraisal as factors to be considered in assessing the value of the WPTT license and an acceptable sales price for WPTT. The purchase price was financed by WPTT, Inc., the new owner, through (i) a 15-year senior secured term note of \$6.0 million (the "WPTT Note"), and (ii) a 20-year 8.5% redeemable subordinated convertible debenture (the "Convertible Debenture") in the aggregate principal amount of \$1.0 million. At the same time, the Company entered into agreements to lease the tower and station buildings to WPTT, Inc. for use in the operation of WPTT with annual rental payments of \$212,400.

Principal payments on the WPTT Note are required to be made over the five-year period, in the amount of \$100,000 each month, commencing on October 1, 2001 and ending on September 30, 2006, at which time any unpaid amounts on the WPTT Note are due. Interest payments, which are computed on a floating interest rate equal to the prime rate plus 4.5%, began on October 1, 1991 and are payable monthly until maturity.

The Convertible Debenture, which matures on September 30, 2011, is convertible, in whole or in part, by the holder at any time prior to maturity, subject to the approval of the FCC, into up to 80% of the capital stock of WPTT, Inc., such shares to be non-voting. WPTT, Inc. has agreed not to issue any other debentures or like instruments during the term of the debenture without the express written consent of the holder.

In December 1991, Keyser Communications, Inc. ("KCI"), a corporation wholly owned by the Current Stockholders, entered into a Programming Services Agreement (the "Programming Agreement") with WPTT, Inc. pursuant to which KCI agreed to provide programming to WPTT during certain time periods, and WPTT agreed that KCI could sell, or engage a third party to sell, advertising time on WPTT during such programming. In consideration for WPTT broadcasting the programming provided by KCI, KCI agreed to pay an hourly fee. In January 1992, KCI entered into a management agreement and other arrangements with WPGH, Inc., a Subsidiary of the Company, whereby KCI and WPGH, Inc. agreed that WPGH, Inc. may provide to KCI its excess programming which will assist KCI in providing programming to WPTT under the Programming Agreement. As consideration for the programming provided by WPGH, Inc., WPGH, Inc. sells the advertising time allotted to KCI under to the Programming Agreement. Pursuant to these arrangements, WPGH, Inc. receives a 10% commission on the advertising time sold. During 1993, WPGH, Inc. received gross commissions of \$455,000. The total net commissions earned by WPGH, Inc. were approximately \$120,000 in 1993. In addition, the Company received from KCI broadcast time for promotions valued at \$26,000 in 1993.

During 1992, the Convertible Debenture was assigned to the Current Stockholders in exchange for the payment of \$100,000 and the issuance of a \$900,000 note, which bears interest at 7.9% per annum and matures in April 2002.

In March 1993, the Company assigned the WPTT Note to Julian S. Smith and Carolyn C. Smith (the parents of the Current Stockholders), both former stockholders of the Company, in exchange for the payment of \$50,000 and the issuance of a \$6.6 million note which bears interest at 7.21% per annum and requires interest only payments through September 2001. Monthly principal payments of \$109,317 plus interest are payable commencing in November 2001 and ending in September 2006, at which time the remaining principal balance plus accrued interest, if any, is due.

## **Sale of WIIB**

In September 1990, the Company sold all the stock of Channel 63, Inc., the owner of WIIB in Bloomington, to the Current Stockholders for \$1.5 million, financed by a note issued to the Company bearing

interest at the rate of 10.25% per annum (the "WIIB Note"), which was guaranteed by WIIB. The purchase price was determined by an independent appraisal. In June 1992, the then outstanding principal balance on the WIIB Note of \$1.5 million was refinanced. This transaction was entered into to allow WIIB to refinance at lower interest rates prevailing at the time of refinancing. The new note bears interest at 6.88% per annum, is payable in monthly principal and interest payments of \$16,000 until September 30, 2000, at which time a final payment of approximately \$431,000 is due. The WIIB Note, and all renewals, extensions, substitutions, refinancings and restatements thereon, is pledged pursuant to the Company's bank credit agreement. At December 31, 1993, \$1.3 million remained outstanding. At the time of the sale WIIB was, and is currently, a Home Shopping Network affiliate.

### **Bay Television, Inc.**

In April 1990, Chesapeake Television, Inc. ("CTI"), a Subsidiary of the Company, sold certain station equipment to Bay Television, Inc. in exchange for the issuance of a note in the principal amount of \$503,359 payable over five years with an interest rate of 11% per annum (the "Bay Transmitter Note"). Bay Television, Inc. is owned 75% by the Current Stockholders and 25% by Robert L. Simmons, a former stockholder of the Company, and is the owner and operator of WTTA in St. Petersburg. At December 31, 1993, \$160,000 remained outstanding under the Bay Transmitter Note.

In connection with the capitalization of Bay Television, Inc. the Company agreed to loan the Current Stockholders up to \$3 million on May 17, 1990, and the Current Stockholders simultaneously agreed to loan Bay Television, Inc. up to \$3 million (collectively, the "Bay Credit Facility"). Each of the loans to the Current Stockholders and to Bay Television, Inc. pursuant to the Bay Credit Facility is evidenced by a secured note due December 31, 1999 accruing interest at a floating rate equal to the prime rate plus one percentage point. The principal balance, payable over six years commencing on March 31, 1994, is required to be repaid quarterly at a rate of: (i) 1.25% each quarter for the first year; (ii) 2.5% each quarter for the second year; (iii) 5% each quarter for years three through five; and (iv) 6.25% each quarter for the last year. Interest on the unpaid principal amount of each note is also payable quarterly. The notes pursuant to the Bay Credit Facility are pledged pursuant to the Company's bank credit agreement. At December 31, 1993, principal and accrued interest of \$2.6 million remains outstanding under the Bay Credit Facility.

### **Loans to Affiliates**

In January 1991, the Company loaned Robert E. Smith \$100,000 payable on demand and bearing interest at the rate of 8.87%. In June 1992, the Board of Directors of the Company reduced the interest rate to 7.87%, effective June 1, 1992. This note was paid in full and canceled on September 27, 1993.

In June 1992, the Company loaned David D. Smith \$250,000 payable on demand and bearing interest at the rate of 7.87%. The Company also loaned \$250,000 to J. Duncan Smith on the same terms. In 1993, the interest rate on J. Duncan Smith's note was changed to the current Applicable Federal Rate, effective January 1, 1993. Both of these notes were paid in full and canceled on September 27, 1993.

### **Affiliated Leases**

From 1987 to 1992, the Company entered into five lease transactions with Cunningham Communications, Inc. ("Cunningham"), a corporation wholly owned by the Current Stockholders, to lease certain facilities from Cunningham. Four of these leases are 10-year leases for rental space on broadcast towers, two of which are capital leases having renewable terms of 10 years. The other lease is a month to month lease for the old studio and offices of WBFF where certain WBFF satellite dishes are located. The aggregate annual rental payments related to these leases were \$348,000 in 1993 and will be \$455,000 in 1994.

In January 1991, CTI entered into a 10-year capital lease for a new administrative facility for station WBFF and the Company's corporate offices with Keyser Investment Group, Inc. ("KIG"), a corporation wholly owned by the Current Stockholders. Additionally, in June 1991 CTI entered into a one-year renewable lease for parking facilities at the administration facility with KIG. The aggregate annual rental payments related to the administrative facility were \$336,000 in 1993 and will be \$386,000 in 1994.

Gerstell Development Limited Partnership ("Gerstell"), an entity wholly owned by the Current Stockholders, was formed in April 1993 to acquire certain personal and real property interests of the Company in Pennsylvania. This transaction was completed in September 1993. Gerstell acquired the WPGH office/studio, transmitter and tower site for an aggregate of \$2.2 million. The purchase price was financed in part by a \$2.1 million note bearing interest at 6.18% with principal payments beginning on November 1, 1994 and a final maturity date of October 1, 2013. Gerstell also leased the office/studio, transmitter and tower site to WPGH, Inc. for \$14,875 per month and \$25,000 per month, respectively. These are seven-year leases with four seven-year renewal periods. Gerstell has arranged for a \$2.0 million loan (the "Gerstell Loan") from a bank lender for the construction on the studio/transmitter site of an expansion of the existing office building/television studio and the construction of a new tower having an estimated cost of an aggregate of \$1.5 million. The Company has guaranteed the Gerstell Loan. As of December 31, 1993, there was \$130,000 outstanding under the Gerstell Loan. The completed office building/television studio and the new tower will be leased from Gerstell by WPGH, Inc. The Company believes that the leases with Gerstell are or will be at market rates and of an adequate duration.

Pursuant to a second acquisition agreement, Gerstell has agreed to purchase from the Company certain real estate in Monroeville, Pennsylvania for a purchase price equal to its appraised value of \$115,000. The property is the location of the tower for WPTT in Pittsburgh. The Company conveyed the above mentioned personal and real property to Gerstell in an effort to limit its liability exposure associated with the towers and real property sites.

### **Stock Redemptions**

On September 30, 1990, the Company issued the Founders' Notes maturing on May 31, 2005, payable to Julian S. Smith and Carolyn C. Smith, former majority owners of the Company and the parents of the Current Stockholders, in the amounts of \$7.5 million and \$6.7 million, respectively, in consideration of stock redemptions of 72.65% of the outstanding stock of the Company. The redemption price of the Founders' Stock was determined by an independent appraiser. The Founders' Notes are secured by security interests in all of the assets of the Company and its subsidiaries, and are personally guaranteed by the Current Stockholders.

Principal payments on the loan from Julian S. Smith are payable, in various amounts, each October, beginning October 1991 until October 2004, with a balloon payment due at maturity in the amount of \$5.0 million. Additionally, monthly interest payments of \$28,750 commenced on April 1993 and will continue until December 1996.

Principal payments on the loan from Carolyn C. Smith are payable each October, beginning October 1991 until October 2004, with a balloon payment due at maturity in the amount of \$4.5 million. The notes include stated interest rates of 8.75%, payable annually from October 1990 until October 1992, then payable semi-annually thereafter, until maturity. The effective interest rate approximates 9.4%.

In December 1986, the Company entered into a non-competition agreement with Julian S. Smith in the aggregate amount of \$345,000 per year. This agreement expired May 1993.

### **Glencairn Acquisition**

If FCC consent to the Glencairn Acquisition as proposed in the current FCC application is obtained, the Company will enter into a PSA with Glencairn with respect to WVTM. Carolyn C. Smith, the mother of the Current

Stockholders. owns a majority of the voting capital stock of Glencairn. The specific terms of the PSA are subject to further negotiation between Glencairn and the Company.

### **Certain Business Relationships**

During 1993, Thomas & Libowitz, P.A., counsel to the Company, billed the Company approximately \$404,000 in fees and expenses for legal services. Basil A. Thomas, a director of the Company, is of counsel to Thomas & Libowitz, P.A., and is the father of Steven A. Thomas, a senior attorney and founder of Thomas & Libowitz, P.A.

## **PART IV**

### **ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

#### **(a)(1) Index to Financial Statements**

The financial statements required by this item are submitted in a separate section beginning on page F-1 of this report.

Index to Financial Statements .....	F-1
Report of Arthur Andersen & Co., Independent Public Accountants .....	F-2
Consolidated Balance Sheets at December 31, 1992 and 1993 .....	F-3
Consolidated Statements of Operations for the years ended December 31, 1991, 1992 and 1993 .....	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1991, 1992 and 1993 .....	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 1991, 1992 and 1993 .....	F-6
Notes to Consolidated Financial Statements .....	F-8

#### **(a)(2) Index to Financial Statements Schedules**

The financial statements schedules required by this item are submitted on pages S-1 through S-7 of this Report.

Index to Schedules .....	S-1
Report of Arthur Andersen & Co., Independent Public Accountants .....	S-2
Schedule II -- Amounts Receivable from Related Parties .....	S-3
Schedule IV -- Indebtedness of and to Related Parties -- Not Current .....	S-5
Schedule VIII -- Valuation and Qualifying Accounts .....	S-6
Schedule X -- Supplementary Statement of Operations Information .....	S-7

All other schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or the notes thereto.

#### **(a)(3) Index to Exhibits**

See Index to Exhibits on pages 30 - 34.

#### **(b) Reports on Form 8-K**

There were no reports on Form 8-K filed by the Registrant during the fourth quarter of the fiscal year ended December 31, 1993.

#### **(c) Exhibits**

The exhibits required by this Item are listed under Item 14(a)(3).

#### **(d) Financial Statement Schedules**

The financial statement schedules required by this Item are listed under Item 14(a)(2).

# SIGNATURES

Pursuant to the requirements of Section 14 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on the 30th day of March, 1994.

SINCLAIR BROADCAST GROUP, INC.  
Chesapeake Television, Inc.  
Chesapeake Television Licensee, Inc.  
WTTE, Channel 28, Inc.  
WTTE, Channel 28 Licensee, Inc.  
WPGH, INC.  
WPGH Licensee, Inc.  
WTTO, Inc.  
WTTO Licensee, Inc.  
WCGV, Inc.  
WCGV Licensee, Inc.

By: /s/ David D. Smith  
David D. Smith, President

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoint David D. Smith, Frederick G. Smith, J. Duncan Smith and Robert E. Smith, or any of them, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report, and to file the same, with exhibits thereto and other documents in connections therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David D. Smith</u> David D. Smith	Chairman, CEO and President (Principal Executive Officer)	March 30, 1994
<u>/s/ Frederick G. Smith</u> Frederick G. Smith	Vice President and Director	March 30, 1994
<u>/s/ J. Duncan Smith</u> J. Duncan Smith	Secretary and Director	March 30, 1994
<u>/s/ Robert E. Smith</u> Robert E. Smith	Treasurer and Director	March 30, 1994
<u>/s/ David B. Amy</u> David B. Amy	Controller (Principal Financial Officer and Principal Accounting Officer)	March 30, 1994
<u>/s/ Basil A. Thomas</u> Basil A. Thomas	Director	March 30, 1994



## INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
*3.1	Articles of Amendment and Restatement of the Charter of Sinclair Broadcast Group, Inc.
*3.2	Amended By-Laws of Sinclair Broadcast Group, Inc.
*3.3	Amended and Restated Charter of Chesapeake Television, Inc.
*3.4	Amended By-Laws of Chesapeake Television, Inc.
*3.5	Certificate of Incorporation of Chesapeake Television Licensee, Inc.
*3.6	By-Laws of Chesapeake Television Licensee, Inc.
*3.7	Amended and Restated Charter of WTTE, Channel 28, Inc.
*3.8	Amended By-Laws of WTTE, Channel 28, Inc.
*3.9	Amended and Restated Charter of WTTE, Channel 28 Licensee, Inc.
*3.10	Amended By-Laws of WTTE, Channel 28 Licensee, Inc.
*3.11	Articles of Incorporation of WPGH, Inc., as amended
*3.12	By-Laws of WPGH, Inc.
*3.13	Amended and Restated Charter of WPGH Licensee, Inc.
*3.14	Amended By-Laws of WPGH Licensee, Inc.
*3.15	Articles of Incorporation of WTTO, Inc.
*3.16	By-Laws of WTTO, Inc.
*3.17	Certificate of Incorporation of WTTO Licensee, Inc.
*3.18	By-Laws of WTTO Licensee, Inc.
*3.19	Articles of Incorporation of WCGV, Inc.
*3.20	By-Laws of WCGV, Inc.
*3.21	Certificate of Incorporation of WCGV Licensee, Inc.
*3.22	By-Laws of WCGV Licensee, Inc.
*4.1	Form of Indenture by and between Sinclair Broadcast Group, Inc., each of the guarantors named therein and First Union National Bank of North Carolina, as Trustee
*4.2	Form of Pledge and Assignment Agreement by and between Sinclair Broadcast Group, Inc. and First Union National Bank of North Carolina, as Trustee
*10.1	Agreement and Amendment to Station Affiliation Agreement dated as of June 11, 1993 between Sinclair Broadcast Group, Inc. and Fox Broadcasting Company
*10.2	Station Affiliation Agreement dated as of June 9, 1992 between Chesapeake Television, Inc. and Fox Broadcasting Company
*10.3	Station Affiliation Agreement dated as of June 10, 1992 between Sinclair Broadcast Group, Inc. -- WPGH and Fox Broadcasting Company
*10.4	Station Affiliation Agreement dated as of June 9, 1992 between CRI, Inc. -- WTTE and Fox Broadcasting Company

- \*10.5 Irrevocable Letter of Credit in an amount not to exceed \$6,250,000, granted by The Chase Manhattan Bank, N.A. for the account of Commercial Radio Institute, Inc., dated as of August 11, 1993
- \*10.6 Escrow Agreement dated as of August 10, 1993 by and among Sinclair Broadcast Group, Inc., Glencairn, Ltd., ABRY Communications, L.P. and The First National Bank of Chicago, N.A.
- \*10.7 Asset Purchase Agreement dated as of August 10, 1993 between WNUV TV-54 Limited Partnership (as seller) and WNUV, Inc. (as buyer) (exhibits and schedules have been omitted and the Registrants agree to furnish copies thereof to the Securities and Exchange Commission upon its request)
- \*10.8 Asset Purchase Agreement dated as of August 10, 1993 among Super 18 Television Limited Partnership (as seller) and WTV, Inc. and WCGV, Inc. (as buyers) (exhibits and schedules have been omitted and the Registrants agree to furnish copies thereof to the Securities and Exchange Commission upon its request)
- \*10.9 Asset Purchase Agreement dated as of August 10, 1993 among BBM Partners, L.P., WTTT, Inc. and WCGV, Inc. (a Delaware corporation) (as sellers) and WTTT, Inc. and WCGV, Inc. (a Maryland corporation) (as buyers) (exhibits and schedules have been omitted and the Registrants agree to furnish copies thereof to the Securities and Exchange Commission upon its request)
- \*10.10 Asset Purchase Agreement dated as of August 10, 1993 among ABRY Communications, L.P., Copley Place Capital Group and WNUV TV-54 Limited Partnership (as sellers) and Chesapeake Television, Inc. (as buyer) (exhibits and schedules have been omitted and the Registrants agree to furnish copies thereof to the Securities and Exchange Commission upon its request)
- \*10.11 Letter Agreement dated as of August 10, 1993 between Sinclair Broadcast Group, Inc. and certain affiliates of ABRY Communications, L.P. and Form of Covenant Not to Compete
- \*10.12 Promissory Note dated as of May 17, 1990 in the principal amount of \$3,000,000 among David D. Smith, Frederick G. Smith, J. Duncan Smith and Robert E. Smith (as makers) and Sinclair Broadcast Group, Inc., Channel 63, Inc., Commercial Radio Institute, Inc., WTTT, Channel 28, Inc. and Chesapeake Television, Inc. (as holders)
- \*10.13 Promissory Note dated as of May 17, 1990 in the principal amount of \$3,000,000 between Bay Television, Inc. (as maker) and David D. Smith, Frederick G. Smith, J. Duncan Smith and Robert E. Smith (as holders)
- \*10.14 Term Note dated as of September 30, 1990 in the principal amount of \$7,515,000 between Sinclair Broadcast Group, Inc. (as borrower) and Julian S. Smith (as lender)
- \*10.15 Term Note dated as of September 30, 1990 in the principal amount of \$6,700,000 between Sinclair Broadcast Group, Inc. (as borrower) and Carolyn C. Smith (as lender)
- \*10.16 Note dated as of September 30, 1990 in the principal amount of \$1,500,000 between Frederick G. Smith, David D. Smith, J. Duncan Smith and Robert E. Smith (as borrowers) and Sinclair Broadcast Group, Inc. (as lender)
- \*10.17 Promissory Note dated as of January 7, 1991 in the principal amount of \$100,000 between Robert E. Smith (as maker) and Sinclair Broadcast Group, Inc. (as holder)
- \*10.18 Term note dated as of August 30, 1991 in the principal amount of \$6,000,000 between WPTT, Inc. (as borrower) and Commercial Radio Institute, Inc. (as lender)

- \*10.19 Promissory Note dated as of June 1, 1992 in the principal amount of \$250,000 between David D. Smith (as maker) and Sinclair Broadcast Group, Inc. (as holder)
- \*10.20 Promissory Note dated as of June 1, 1992 in the principal amount of \$250,000 between J. Duncan Smith (as maker) and Sinclair Broadcast Group, Inc. (as holder), with Amendment thereto dated as of May 5, 1993
- \*10.21 Amended and Restated Note dated as of June 30, 1992 in the principal amount of \$1,458,489 between Frederick G. Smith, David D. Smith, J. Duncan Smith and Robert E. Smith (as borrowers) and Sinclair Broadcast Group, Inc. (as lender)
- \*10.22 Term Note dated August 1, 1992 in the principal amount of \$900,000 between Frederick G. Smith, David D. Smith, J. Duncan Smith and Robert E. Smith (as borrowers) and Commercial Radio Institute, Inc. (as lender)
- \*10.23 Management Agreement dated as of January 6, 1992 between Keyser Communications, Inc. and WPGH, Inc.
- \*10.24 Form of Programming Services Agreements with Glencairn, Ltd.
- \*10.25 Lease Agreement dated as of April 1, 1992 between Cunningham Communications, Inc. and Chesapeake Television, Inc., as amended on September 23, 1993
- \*10.26 Lease Agreement dated as of June 1, 1991 between Cunningham Communications, Inc. and Chesapeake Television, Inc., as amended on September 23, 1993
- \*10.27 Lease Agreement dated as of March 16, 1988 between Cunningham Communications, Inc. and Chesapeake Television, Inc., as amended on September 23, 1993
- \*10.28 Lease Agreement dated as of April 2, 1987 between Cunningham Communications, Inc. and Chesapeake Television, Inc., as amended on September 23, 1993
- \*10.29 Lease dated June 1, 1991 between Cunningham Communications, Inc. and Chesapeake Television, Inc.
- \*10.30 Lease dated January 1, 1991 between Keyser Investment Group, Inc. and Chesapeake Television, Inc.
- \*10.31 Lease dated June 6, 1991 between Keyser Investment Group, Inc. and Chesapeake Television, Inc.
- \*10.32 Agreement Not to Compete dated as of December 30, 1986 between Commercial Radio Institute, Inc. and Julian S. Smith
- \*10.33 Agreement Not to Compete dated as of December 30, 1986 between Chesapeake Television, Inc. and Julian S. Smith
- \*10.34 Promissory Note dated as of December 28, 1986 in the principal amount of \$6,421,483.53 between Sinclair Broadcast Group, Inc. (as maker) and Frederick H. Himes, B. Stanley Resnick and Edward A. Johnston (as representatives for the holders)
- \*10.35 Purchase and Termination Agreement dated as of June 15, 1993 among WPGH, Inc., Commercial Radio Institute, Inc. and Heller Financial, Inc.
- \*10.36 Term Note dated as of August 30, 1991 in the principal amount of \$6,000,000 between WPTT, Inc. (as maker-borrower) and Commercial Radio Institute, Inc. (as holder-lender) (as amended)
- \*10.37 Term Note dated as of March 1, 1993 in the principal amount of \$6,559,000 between Julian S. Smith and Carolyn C. Smith (as makers-borrowers) and Commercial Radio Institute, Inc. (as holder-lender)

- \*10.38 Credit Agreement dated as of August 30, 1991 in the aggregate principal amount of \$95,000,000, between Sinclair Broadcast Group, Inc. (as Parent Guarantor and representative of Subsidiary Guarantors) and Commercial Radio Institute, Inc. (as borrower), and Chase Manhattan Bank, N.A. (as Agent for various lenders under the agreement) (exhibits and schedules have been omitted and the Registrants agree to furnish copies thereof to the Securities and Exchange Commission upon its request)
- \*10.39 Amendment No. 1 to the Credit Agreement dated as of December 5, 1991 among Sinclair Broadcast Group, Inc., Commercial Radio Institute, Inc., various subsidiaries of Commercial Radio Institute, Inc., David D. Smith, Frederick G. Smith, J. Duncan Smith, Robert E. Smith, various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.40 Amendment No. 2 to the Credit Agreement dated as of November 13, 1992 among Sinclair Broadcast Group, Inc., Commercial Radio Institute, Inc., various subsidiaries of Commercial Radio Institute, Inc., David D. Smith, Frederick G. Smith, J. Duncan Smith, Robert E. Smith, various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.41 Amendment No. 3 to the Credit Agreement dated as of December 15, 1992 among Sinclair Broadcast Group, Inc., Commercial Radio Institute, Inc., various subsidiaries of Commercial Radio Institute, Inc., various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.42 Amendment No. 4 to the Credit Agreement dated as of February 1, 1993 among Sinclair Broadcast Group, Inc., Commercial Radio Institute, Inc., various subsidiaries of Commercial Radio Institute, Inc., Julian S. Smith and Carolyn C. Smith, various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.43 Amendment No. 5 to the Credit Agreement dated as of June 15, 1993 among Sinclair Broadcast Group, Inc., Commercial Radio Institute, Inc., various Subsidiaries of Commercial Radio Institute, Inc., various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.44 Amendment No. 6 to the Credit Agreement dated as of August 9, 1993 among Sinclair Broadcast Group, Inc., Commercial Radio Institute, Inc., various Subsidiaries of Commercial Radio Institute, Inc., various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.45 Amendment No. 7 to the Credit Agreement dated as of September 15, 1993 among Sinclair Broadcast Group, Inc., Commercial Radio Institute, Inc., various Subsidiaries of Commercial Radio Institute, Inc., various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.46 Amendment No. 8 to the Credit Agreement dated as of October 15, 1993 among Sinclair Broadcast Group, Inc., various Subsidiaries of Sinclair Broadcast Group, Inc., the Smith Brothers, various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
- \*10.47 Restatement of Stock Redemption Agreement by and among Sinclair Broadcast Group, Inc. and Chesapeake Television, Inc., et al. dated June 19, 1990 (without exhibits)
- \*10.48 Corporate Guaranty Agreement dated as of September 30, 1990 by Chesapeake Television, Inc., Commercial Radio, Inc., Channel 63, Inc. and WTTE, Channel 28, Inc. (as guarantors) to Julian S. Smith and Carolyn C. Smith (as lenders)
- \*10.49 Security Agreement dated as of September 30, 1990 among Sinclair Broadcast Group, Inc., Chesapeake Television, Inc., Commercial Radio Institute, Inc., WTTE, Channel 28,

- Inc. and Channel 63, Inc. (as borrowers and subsidiaries of the borrower) and Julian S. Smith and Carolyn C. Smith (as lenders)
- \*10.50 Guaranty of Payment dated as of September 30, 1990 among Frederick G. Smith, David D. Smith, J. Duncan Smith and Robert E. Smith (as guarantors) and Julian S. Smith and Carolyn C. Smith (as lenders)
  - \*10.51 Stock Pledge Agreement dated as of September 30, 1990 among Frederick G. Smith, David D. Smith, J. Duncan Smith and Robert E. Smith (as pledgors) and Julian S. Smith and Carolyn C. Smith (as lenders)
  - \*10.52 Subordination Agreement dated as of September 30, 1990 among Julian S. Smith and Carolyn C. Smith (as Creditors) and American Security Bank, N.A. and First American Bank of Maryland (as lenders)
  - \*10.53 Warrant Agreement dated as of August 30, 1991, between WPGH, Inc., The Chase Manhattan Bank, N.A., and executed by Sinclair Broadcast Group, Inc.
  - \*10.54 WPGH-TV Asset Purchase Agreement dated January 12, 1991 between Channel 53, Inc. and Channel 53 Licensee, Inc. (as sellers) and Sinclair Broadcast Group, Inc. (as buyer) (as amended) (exhibits and schedules have been omitted and the Registrants agree to furnish copies thereof to the Securities and Exchange Commission upon its request)
  - \*10.55 Contract of Sale dated as of September 22, 1993 (as buyer) between Commercial Radio Institute, Inc. (as seller) and Gerstell Development Limited Partnership (as buyer)
  - \*10.56 Contract of Sale dated as of September 22, 1993 between Commercial Radio Institute, Inc. (as Seller) and Gerstell Development Limited Partnership (as buyer)
  - \*10.57 Assignment of Leases dated as of September 22, 1993 between WPGH, Inc. (as assignor) and Commercial Radio Institute, Inc. (as assignee)
  - \*10.58 Assignment of Leases dated as of September 22, 1993 between Commercial Radio Institute, Inc. (as assignor) and Gerstell Development Limited Partnership (as assignee)
  - \*10.59 Assignment of Leases dated as of September 22, 1993 between Commercial Radio Institute, Inc. (as assignor) and Gerstell Development Limited Partnership (as assignee)
  - \*10.60 Term Note dated as of September 22, 1993, in the principal amount of \$1,900,000 between Gerstell Development Limited Partnership (as maker-borrower) and Sinclair Broadcast Group, Inc. (as holder-lender)
  - \*10.61 Form of Amendment No. 9 to the Credit Agreement among Sinclair Broadcast Group, Inc., various Subsidiaries of Sinclair Broadcast Group Inc., various signatory financial institution lenders, and The Chase Manhattan Bank, N.A.
  - \*22.1 Subsidiaries of Sinclair Broadcast Group, Inc.
  - 25.1 Powers of Attorney (see page 29)

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\* Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (33-69482) or amendments thereto and incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES:

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of  
Sinclair Broadcast Group, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Sinclair Broadcast Group, Inc. (a Maryland corporation) and Subsidiaries as of December 31, 1992 and 1993, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 1991, 1992 and 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sinclair Broadcast Group, Inc. and Subsidiaries, as of December 31, 1992 and 1993, and the results of their operations and their cash flows for the years ended December 31, 1991, 1992 and 1993, in conformity with generally accepted accounting principles.

*Arthur Andersen & Co.*

Baltimore, Maryland,  
March 22, 1994

## SINCLAIR BROADCAST GROUP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

( in thousands)

	As of December 31,	
	1992	1993
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 1) .....	\$ 1,823	\$ 18,036
Cash held in escrow (Notes 3 and 14) .....	-	100,000
Receivables, net of allowance for doubtful accounts of \$472 and \$505, respectively .....	17,471	18,519
Refundable income taxes (Note 7) .....	1,800	385
Current portion of program contract costs (Notes 1 and 5) .....	7,643	5,061
Deferred barter costs (Note 1) .....	449	512
Prepaid expenses and other current assets (Note 11) .....	3,659	456
Deferred tax asset (Note 7) .....	<u>1,150</u>	<u>2,365</u>
Total current assets .....	33,995	145,334
PROPERTY AND EQUIPMENT, net (Notes 2, 4 and 8) .....	13,726	12,195
PROGRAM CONTRACT COSTS, less current portion (Notes 1 and 5) .....	7,127	3,863
LOANS TO OFFICERS AND AFFILIATES, net of deferred gain of \$657 and \$609 in 1992 and 1993, respectively (Notes 1 and 6) ..	4,923	12,939
DEFERRED TAX ASSET (Note 7) .....	-	1,935
OTHER ASSETS (Notes 1 and 11) .....	15,156	5,261
ACQUIRED INTANGIBLE BROADCASTING ASSETS, net of accumulated amortization of \$11,401 and \$15,446, respectively (Notes 1 and 11) .....	<u>64,801</u>	<u>60,247</u>
Total Assets .....	<u>\$139,728</u>	<u>\$241,774</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable .....	\$ 2,373	\$ 2,199
Income taxes payable (Note 7) .....	186	890
Accrued liabilities (Note 11) .....	3,533	6,223
Current portion of long-term liabilities-		
Notes payable and commercial bank financing (Note 3) .....	10,734	100,869
Capital leases payable (Notes 2 and 8) .....	727	754
Notes and capital leases payable to affiliates (Note 4) .....	320	1,197
Program contracts payable (Notes 1 and 5) .....	13,295	11,858
Deferred barter revenues (Note 1) .....	<u>451</u>	<u>663</u>
Total current liabilities .....	31,619	124,653
<b>LONG-TERM OBLIGATIONS:</b>		
Notes payable and commercial bank financing (Note 3) .....	69,378	103,053
Capital leases payable (Notes 2 and 8) .....	1,931	1,188
Notes and capital leases payable to affiliates (Note 4) .....	15,962	17,585
Program contracts payable (Notes 1 and 5) .....	10,743	7,232
Deferred taxes payable (Note 7) .....	1,900	-
Deferred gains (Note 6) .....	<u>353</u>	<u>230</u>
	<u>131,886</u>	<u>253,941</u>
WARRANTS OUTSTANDING (Note 3) .....	<u>11,607</u>	-
COMMITMENTS AND CONTINGENCIES (Notes 3, 4, 5, 10, 11 and 14)		
<b>STOCKHOLDERS' EQUITY (Notes 1, 3 and 11):</b>		
Common stock, \$.01 par value, 25,000,000 shares authorized and 691,980 shares issued and outstanding .....	7	7
Additional paid-in capital .....	4,708	4,756
Accumulated deficit .....	<u>(8,480)</u>	<u>(16,930)</u>
Total stockholders' equity .....	<u>(3,765)</u>	<u>(12,167)</u>
Total Liabilities and Stockholders' Equity .....	<u>\$139,728</u>	<u>\$241,774</u>

The accompanying notes are an integral part of these consolidated balance sheets.



**SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 1991, 1992 AND 1993**  
(in thousands)

	<u>1991</u>	<u>1992</u>	<u>1993</u>
<b>REVENUES:</b>			
Advertising revenues, net of agency commissions of \$6,738, \$10,011 and \$11,296, respectively .....	\$39,698	\$58,344	\$65,422
Revenues realized from barter arrangements .....	<u>5,660</u>	<u>8,805</u>	<u>6,892</u>
Net broadcast revenues .....	<u>45,358</u>	<u>67,349</u>	<u>72,314</u>
<b>OPERATING EXPENSES:</b>			
Program and production .....	13,380	17,454	15,816
Selling, general and administrative .....	11,807	13,663	12,874
Amortization of program contract costs and net realizable value adjustments .....	9,711	16,288	9,448
Depreciation and amortization of property and equipment .....	2,051	2,654	2,558
Amortization of acquired intangible broadcasting assets and other assets (Notes 1 and 11) .....	6,316	11,978	10,480
Special bonuses paid to executive officers (Note 1) .....	<u>-</u>	<u>-</u>	<u>10,000</u>
	<u>43,265</u>	<u>62,037</u>	<u>61,176</u>
Broadcast operating income .....	<u>2,093</u>	<u>5,312</u>	<u>11,138</u>
<b>OTHER INCOME (EXPENSE):</b>			
Interest expense (Notes 3, 4, 8 and 11) .....	(8,895)	(12,997)	(12,852)
Interest income .....	461	1,117	1,220
Other income (Note 12) .....	<u>101</u>	<u>90</u>	<u>911</u>
	(8,333)	(11,790)	(10,721)
Income (loss) before (provision) benefit for income taxes and extraordinary items .....	(6,240)	(6,478)	417
<b>BENEFIT (PROVISION) FOR INCOME TAXES (Note 7)</b> .....	<u>1,580</u>	<u>1,189</u>	<u>(960)</u>
Net loss before extraordinary items .....	(4,660)	(5,289)	(543)
<b>EXTRAORDINARY ITEMS:</b>			
Gain on purchase of warrants (Note 3) .....	-	-	1,257
Loss on repayment of commercial bank debt and planned redemption of senior subordinated notes, net of related income tax benefit of \$2,900 (Notes 3 and 14) .....	<u>-</u>	<u>-</u>	<u>(9,164)</u>
Net loss .....	<u>\$ (4,660)</u>	<u>\$ (5,289)</u>	<u>\$ (8,450)</u>

The accompanying notes are an integral part of these consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 1991, 1992 AND 1993

(in thousands)

(Notes 1 and 8)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total Stockholders' Equity</u>
BALANCE, December 31, 1990.....	\$7	\$ 132	\$ 1,469	\$ 1,608
Net loss .....	<u>-</u>	<u>-</u>	<u>(4,660)</u>	<u>(4,660)</u>
BALANCE, December 31, 1991.....	7	132	(3,191)	(3,052)
Realization of deferred gain.....	-	4,576	-	4,576
Net loss .....	<u>-</u>	<u>-</u>	<u>(5,289)</u>	<u>(5,289)</u>
BALANCE, December 31, 1992.....	7	4,708	(8,480)	(3,765)
Realization of deferred gain.....	-	48	-	48
Net loss .....	<u>-</u>	<u>-</u>	<u>(8,450)</u>	<u>(8,450)</u>
BALANCE, December 31, 1993.....	<u>\$7</u>	<u>\$4,756</u>	<u>\$ (16,930)</u>	<u>\$ (12,167)</u>

The accompanying notes are an integral part of these consolidated statements.

**SINCLAIR BROADCAST GROUP INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 1991, 1992 AND 1993**  
(in thousands)

	<u>1991</u>	<u>1992</u>	<u>1993</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss.....	\$ (4,660)	\$ (5,289)	\$ (8,450)
Adjustments to reconcile net loss to net cash flows from operating activities-			
Amortization of program contract costs and net realizable value adjustments.....	9,711	16,288	9,448
Deferred tax benefit .....	(1,146)	(606)	(5,050)
Depreciation and amortization of property and equipment .....	2,051	2,654	2,558
Amortization of acquired intangible broadcasting assets and other assets.....	6,316	11,978	10,480
Realization of deferred gain .....	(21)	(105)	(171)
Amortization of debt discount .....	611	2,096	1,883
Gain on life insurance proceeds.....	-	-	(844)
Gain on purchase of warrants .....	-	-	(1,257)
Loss on repayment of commercial bank debt and planned redemption of senior subordinated notes .....	-	-	12,064
Loss on disposal of property and equipment .....	-	-	115
Changes in assets and liabilities, net of effects of acquisitions and dispositions-			
Increase in receivables, net.....	(4,800)	(3,831)	(48)
(Increase) decrease in refundable income taxes...	(670)	(822)	1,415
(Increase) decrease in prepaid expenses and other current assets .....	(2,837)	(2,939)	803
(Increase) decrease in other assets and acquired intangible broadcasting assets.....	(5,145)	2,601	(1,226)
Increase (decrease) in accounts payable and accrued liabilities.....	2,932	(5,873)	2,516
Increase (decrease) in income taxes payable .....	257	(172)	704
Net effect of change in deferred barter revenues and change in deferred barter costs.....	(175)	(318)	149
Payments on program contracts payable .....	<u>(4,688)</u>	<u>(10,427)</u>	<u>(8,723)</u>
Net cash flows from operating activities.....	<u>\$ (2,264)</u>	<u>\$ 5,235</u>	<u>\$ 16,366</u>

The accompanying notes are an integral part of these consolidated statements.

**SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 1991, 1992 AND 1993**  
(in thousands)

	<u>1991</u>	<u>1992</u>	<u>1993</u>
Net cash flows from operating activities	<u>\$ (2,264)</u>	<u>\$ 5,235</u>	<u>\$ 16,366</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property and equipment.....	(1,730)	(426)	(528)
Loans to officers and affiliates .....	(653)	(830)	(244)
Repayments of loans to officers and affiliates .....	109	205	943
Acquisition of WPGH, Inc. ....	(55,000)	-	-
Payments for organization of new subsidiaries .....	-	-	(123)
Proceeds from life insurance benefits .....	-	-	1,075
Proceeds from disposal of property and equipment .....	-	-	398
Net cash flows from investing activities .....	<u>(57,274)</u>	<u>(1,051)</u>	<u>1,521</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from notes payable and commercial bank financing .....	77,258	25,037	225,000
Cash placed in escrow .....	-	-	(100,000)
Issuance of warrants .....	11,607	-	-
Purchase of warrants .....	-	-	(10,350)
Payments of deferred financing costs .....	-	-	(5,136)
Repayments of notes payable, commercial bank financing and capital leases .....	(30,642)	(23,891)	(110,806)
Repayments of notes and capital leases payable to affiliates .....	<u>(1,068)</u>	<u>(4,887)</u>	<u>(382)</u>
Net cash flows from financing activities .....	<u>57,155</u>	<u>(3,741)</u>	<u>(1,674)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,383)</b>	<b>443</b>	<b>16,213</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period .....</b>	<b><u>3,763</u></b>	<b><u>1,380</u></b>	<b><u>1,823</u></b>
<b>CASH AND CASH EQUIVALENTS, end of period ....</b>	<b><u>\$ 1,380</u></b>	<b><u>\$ 1,823</u></b>	<b><u>\$ 18,036</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:</b>			
Interest .....	<u>\$ 5,604</u>	<u>\$ 13,192</u>	<u>\$ 9,460</u>
Income taxes .....	<u>\$ 362</u>	<u>\$ 489</u>	<u>\$ 527</u>

The accompanying notes are an integral part of these consolidated statements.

# SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991, 1992 AND 1993

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### **Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Sinclair Broadcast Group, Inc. (SBG), Commercial Radio Institute, Inc. (CRI), Chesapeake Television, Inc. (WBFF), WPGH, Inc. (WPGH) and WTTE Channel 28, Inc. (WTTE) and all other subsidiaries. Through August 1993, CRI was a wholly-owned subsidiary of SBG, and WBFF, WPGH and WTTE were wholly-owned subsidiaries of CRI. In September 1993, CRI was liquidated into SBG. The companies mentioned above, which are collectively referred to hereafter as "the Company or Companies", own and operate television stations in Baltimore, Maryland; Pittsburgh, Pennsylvania; and Columbus, Ohio.

On September 30, 1990, SBG issued notes payable to former SBG majority owners in the aggregate amount of \$14,215,000 in consideration of stock redemptions. Through the notes, the former majority owners have subordinated security interests in all of the assets of the Companies. The notes include stated interest rates of 8.75%, although the effective interest rate approximates 9.4%, and are personally guaranteed by the current stockholders of SBG. As of December 31, 1992, SBG had prepaid approximately \$469,000 of the related interest. The notes are due May 31, 2005. The stock redemption was accounted for under the "push-down" method of accounting, as substantially all of the common stock of SBG became owned by a management control group through the above-described redemption of approximately 73% of SBG's common stock. The purchase price was allocated based upon the fair value of the assets and liabilities of the Company and resulted in additional recorded acquired intangible broadcasting assets of \$13,759,000.

#### **Principles of Consolidation**

All significant intercompany transactions and account balances have been eliminated in consolidation.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash, money-market funds and overnight investments at a commercial bank, all with maturities less than 90 days.

#### **Programming**

The Companies have agreements with distributors for the rights to television programming over contract periods which generally run from one to seven years. Contract payments are made in installments over terms that are generally shorter than the contract period. Each contract is recorded as a liability when the license period begins and the program is available for its first showing. The portion of the program contracts payable due within one year is reflected as a current liability in the accompanying consolidated financial statements.

The rights to program materials are reflected in the accompanying consolidated balance sheets at the lower of unamortized cost or estimated net realizable value. Estimated net realizable values are based upon management's expectation of future advertising revenues to be generated by the program material.

Amortization of program contract costs is generally computed under either a four year accelerated method or based on usage, whichever yields the greater amortization for each program. Program contract costs, estimated by management to be amortized in the succeeding year, are classified as current assets.

Due to programming commitments entered into in 1992, certain program contracts acquired in connection with the WPGH acquisition were subsequently determined to have no value to the Companies. Approximately \$3,000,000 of charges were included in amortization of program contract costs and net realizable value adjustments during 1992 related to these contracts.

WBFF, WTTE and WPGH are affiliated with the Fox Broadcasting Company (Fox). Under the affiliation agreements and subsequent renewals, WBFF, WTTE and WPGH are committed to make available certain time periods for Fox programming through October 15, 1998, in exchange for advertising air time and other defined compensation.

#### **Barter Arrangements**

The Companies broadcast certain customers' advertising in exchange for equipment, merchandise and services. The estimated fair value of the equipment, merchandise or services received is recorded as deferred barter costs and the corresponding obligation to broadcast advertising is recorded as deferred barter revenues. The deferred barter costs are expensed or capitalized as they are used, consumed or received. Deferred barter revenues are recognized as the related advertising is aired.

Certain program contracts provide for the exchange of advertising air time in lieu of cash payments for the rights to such programming. These contracts are recorded as the programs are aired at the estimated fair value of the advertising air time given in exchange for the program rights.

#### **Other Assets**

Other assets primarily relate to the \$6,000,000 term note (recorded as loans to officers and affiliates as of December 31, 1993), prepaid noncompete agreements and deferred financing costs (see Notes 8 and 11).

#### **Acquired Intangible Broadcasting Assets**

Acquired intangible broadcasting assets are being amortized over periods of 3 to 40 years. These amounts result from the acquisition of minority interests in 1986 and the stock redemptions in 1988 and 1990 (see Note 11), as well as the acquisition of WPGH (see Note 13). The weighted average life of the related assets which include goodwill and the WPGH FCC license, advertising base, Fox affiliation agreement and other intangible assets is approximately nine years.

#### **Bonuses Declared**

In September 1993, the Company paid special bonuses to executive officers totaling \$10,000,000.

### Non-Cash Transactions

During 1991, 1992 and 1993 the Company entered into the following non-cash transactions (in thousands):

	<u>1991</u>	<u>1992</u>	<u>1993</u>
• Acceptance of a note from a related party in exchange for assignment of an existing note (Note 8)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,559</u>
• Acceptance of note from a related party in exchange for certain property (Note 8)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,100</u>
• Capital leases entered with related parties (Note 8)	<u>\$ 1,496</u>	<u>\$ -</u>	<u>\$ 2,882</u>
• Program contract costs acquired/obligations assumed	<u>\$ 11,540</u>	<u>\$ 9,917</u>	<u>\$ 3,602</u>
• Deferred financing fees to be refunded by underwriters (Note 3)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000</u>

### Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform with the current year presentation.

## **2. PROPERTY AND EQUIPMENT:**

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed under the straight-line method over the following estimated useful lives:

Building and improvements .....	10 - 35 years
Station equipment .....	5 - 10 years
Office furniture and equipment.....	5 - 10 years
Leasehold improvements .....	10 - 31 years
Automotive equipment.....	3 - 5 years
Property, equipment and autos under capital lease .....	Shorter of 10 years or the lease term

Subsequent to December 31, 1993, the Company purchased a corporate jet for \$1,375,000 and an administrative building for \$500,000. Property and equipment consists of the following as of December 31, 1992 and 1993 (in thousands):

	<u>1992</u>	<u>1993</u>
Land and improvements .....	\$ 578	\$ 138
Building and improvements .....	2,993	1,877
Leasehold improvements .....	2,139	2,161
Station equipment .....	8,455	7,778
Office furniture and equipment.....	1,500	1,606
Automotive equipment.....	307	312
Property, equipment and autos under capital leases .....	<u>7,672</u>	<u>10,477</u>
	23,644	24,349
Less - Accumulated depreciation and amortization.....	<u>(9,918)</u>	<u>(12,154)</u>
	<u>\$13,726</u>	<u>\$12,195</u>

### 3. NOTES PAYABLE AND COMMERCIAL BANK FINANCING:

In December 1993, the Company raised \$200,000,000 through the issuance of 10% senior subordinated notes, due 2003 (the Notes). Interest on the Notes is due June 15 and December 15 of each year, commencing June 15, 1994. Interest expense for the year ended December 31, 1993, was \$1,222,000. The Notes are issued under an Indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering totaled \$5,136,000, including underwriting discount of \$4,000,000. These costs were capitalized and are being amortized over the life of the debt, less the costs written off or to be refunded related to the \$100,000,000 held in escrow, as described below.

Proceeds of \$100,000,000 were placed in escrow with the trustee, pending the closing of the acquisition described in Note 14. The Company is required to redeem this portion of the Notes at 100% of the principal amount, plus accrued interest, if, in the opinion of the Company, the acquisition cannot be completed, as defined in the Indenture, in all material respects on or prior to June 1, 1994. Subsequent to year-end, as described in Note 14, the Company determined that a redemption was required and notified the trustee of their intent to redeem \$100,000,000 of the Notes. This portion of the Notes is therefore included in current portion of notes payable and commercial bank financing. The remaining portion of the proceeds of the Notes was used to repay the secured debt facility and for general corporate purposes.

The Company will receive a refund of \$1,000,000 of fees from the underwriters, in connection with the redemption, which is included in receivables. In addition, the Company has recognized an extraordinary loss on the planned redemption of the senior subordinated notes of \$1,102,000, which represents the direct financing costs of the debt to be redeemed, less the refund to be received. In connection with the repayment of the secured debt facility, the Company recognized an extraordinary loss of \$10,962,000 in 1993. This loss consisted of the recognition of unamortized debt discount of \$7,017,000 and the write-off of deferred debt issuance costs of \$3,945,000. The total extraordinary losses of \$12,064,000 are recorded, net of \$2,900,000 in income tax benefits, as loss on repayment of commercial bank debt and planned redemption of senior subordinated notes in the 1993 financial statements.



In addition to the redemption provision discussed above, the Company has the option to redeem the Notes any time after December 15, 1998. Redemption prices are as follows:

<u>Redemption Date</u>	<u>Redemption Price (as a % of principal amount)</u>
On or after December 15, 1998	105%
1999	104%
2000	103%
2001	100%

Furthermore, at any time on or prior to December 15, 1996, the Company may redeem up to 25% of the original principal amount of the Notes with the net proceeds of a public equity offering at 109% of the principal amount. The Notes also may be redeemed by the holder at 101% of the principal amount upon occurrence of a change of control, as defined in the Indenture.

The Indenture contains covenants limiting indebtedness, transactions with affiliates, liens, sales of assets, issuances of guarantees of, and pledges for, indebtedness, transfer of assets, dividends, mergers and consolidations.

The secured debt facility originally consisted of \$80,000,000 in term loans and a \$15,000,000 senior secured revolving line of credit from a commercial bank. All borrowings outstanding under this facility were repaid in December 1993. The revolving line of credit is still available to the Company. Average borrowings and the highest borrowings outstanding were approximately \$10,000,000 and \$13,000,000 during 1992, and \$5,375,000 and \$13,000,000 during 1993, respectively. Under this line of credit, the average interest rate and highest interest rate were 7.4% and 8.5% during 1992 and 6.9% and 8.0% during 1993, respectively. This line of credit is currently partially restricted, as discussed in Note 14.

In 1991, in conjunction with the secured debt facility discussed above, WPGH also entered into a warrant agreement with the bank. The warrants were valued at \$11,607,000 in accordance with an independent appraisal and were recorded as warrants outstanding. A corresponding reduction to the face amount of the commercial bank financing was recorded as a debt discount and was being amortized over the term of the debt. Amortization of debt discount expense was \$611,000, \$2,096,000 and \$1,883,000 for the years ended December 31, 1991, 1992 and 1993, respectively. The remaining discount of \$7,017,000 was recognized as part of the extraordinary loss on repayment of commercial bank debt.

This agreement provided the bank an option to convert the warrants to 15% of the issued and outstanding shares of common stock of WPGH at the occurrence of certain triggering events, or at the expiration date of August 30, 2001. In June 1993, the Company purchased 13.33% of the warrants outstanding for \$850,000. The difference between the carrying value of the warrants and the purchase price, net of debt-related expenses of \$500,000, was recorded as an extraordinary gain of \$198,000. In September 1993, the Company purchased the remaining warrants outstanding for \$9,000,000 and recognized an additional extraordinary gain of \$1,059,000, resulting in a total gain of \$1,257,000.